

**Exhibit 6R**

**Excerpts of Citizens Research Council of Michigan “Detroit City Government Revenues,” Report 382, April 2013 (Syncora Ex. 4466)**

# **CITIZENS RESEARCH COUNCIL OF MICHIGAN**



## **DETROIT CITY GOVERNMENT REVENUES**

**APRIL 2013**

**REPORT 382**

**CELEBRATING 97 YEARS OF INDEPENDENT, NONPARTISAN  
PUBLIC POLICY RESEARCH IN MICHIGAN**



by the municipal income tax. Municipal income tax receipts are the largest single revenue source in Detroit's General Fund. Income tax receipts, which fund general city operations, totaled \$323.5 million in FY2002, the last year the city had a general fund surplus. Receipts declined each year through FY2010, reflecting both rate reductions and employment conditions. Receipts increased in FY2011 and FY2012, possibly due in part to a number of major employers that have centralization operations from suburban locations to less expensive space downtown (See **Chart 15**).

### Non-Filers

One market analysis (McKinsey Report) based on 2009 collections estimated that \$6.6 million of municipal income taxes on commuters who work in Detroit, \$21.8 million of corporate income taxes, and \$155.0 million of income taxes on residents are not collected. Because 54 percent of employed Detroiters work outside of the city, and employers outside the city are not required to withhold city taxes, this analysis estimated that \$142.3 million of municipal income taxes on reverse commuters are not collected. Detroit officials have indicated that they will pursue state legislation requiring employers outside of Detroit to withhold city income taxes on Detroit residents and enabling the levy and collection of taxes on non-resident wagering.

### Shifting Responsibility for Income Tax Collection

The possibility of having the state collect municipal income tax for the city has been raised a number of times in the past, but estimates were that reimbursable state costs would result in little or no savings on the processing costs for Detroit. However, the proposal has been resurrected in the belief that state processing would increase the collection rate, especially for the majority of residents who work outside of the city limits and whose employers are not required to withhold Detroit taxes. If this were the case, the city would have additional resources to invest in services to citizens.

The consent agreement negotiated between the city

and state includes income tax collection as one of the areas in which the state will support Phase I reforms:

The Treasury Department will assist the City in maximizing revenues collected under the City income tax. This will include technical assistance to modernize processing, enhance enforcement, and improve collections. The Treasury Department will assist the City in preparation of draft legislation to require withholding of City Income Taxes for City residents working outside the City. Additionally, the Treasury Department will explore the possibility of enabling the collection and distribution of the City income tax in conjunction with the collection and distribution of State income tax.<sup>9</sup>

The Economic Vitality Incentive Program that replaced statutory state revenue sharing in 2011 includes incentives for local government to consolidate services, providing another incentive for consideration of state collection of municipal income taxes. The first consolidation grant under the EVIP was awarded to Grand Rapids for an interlocal agreement with Flint and Lansing to combine their municipal income tax processing and payment systems. According to the state Department of Treasury description, any of the 22 Michigan cities that impose an income tax can join this income tax processing partnership, which was expected to be operational in 2012.

### Utility Users' Excise Tax

Detroit is the only city in Michigan allowed to impose a five percent utility users' excise tax under authority granted by PA 100 of 1990. Revenues from this tax on the privilege of consuming telephone, electric, steam, or gas services are affected by energy efficiency measures as well as changes in the number and type of households and businesses in the city. Under the original state authorization, revenues from the utility users' excise tax were required to be used to hire or retain police officers. New legislation, PA 392 of 2012, provides that up to \$12.5 million of utility users' excise tax revenues may be used annually to retire debt issued by a public lighting authority. On February 5, 2013, the City Council approved articles of incorporation for such an authority, which can sell bonds to fund overhauling the